

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hamilton Fire Department	County Allegan
Audit Date December 31, 2006	Opinion Date February 10, 2007	Date Accountant Report Submitted to State: February 10, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>		Zip 48707	

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Notes to Financial Statements	10-14
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	15

CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

February 10, 2007

To the Fire Board
Hamilton Fire Department
Allegan County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Hamilton Fire Department, Allegan County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hamilton Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hamilton Fire Department, Allegan County, Michigan as of December 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2006

This section of the Hamilton Fire Department's annual financial report presents our discussion and analysis of the fire departments financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Total assets at December 31, 2006, totaled \$287,092.63 for governmental activities. Of this total, \$272,234.65 represents capital assets net of depreciation.

Overall revenues were \$467,377.71.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Fire Department.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present the fire department's governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the fire department in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the fire department are reported as governmental activities.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the fire department's funds, focusing on significant (major) funds not the department as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Fire Board also may create them. Funds are established to account for funding and spending or specific financial resources and to show proper expenditures of those resources.

The fire department has the following types of funds:

Governmental Funds: All of the fire department's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the fire department's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT AS A WHOLE

Net Assets: The fire departments combined net assets increased by \$200,698.50 during the year ended December 31, 2006, totaling \$287,092.63.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT'S FUNDS

General Fund: This fund is used to record all activities of the fire department not to be recorded in a separate fund. The major source of revenue for the general fund is from local entities.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Fire Department's governmental activities invested \$57,849.00 in capital assets.

The Fire Department paid \$187,326.94 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The fire department plans for the future include replacing existing equipment as it wears out. Plans are in the discussion stage.

CONTACTING THE FIRE DEPARTMENT'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, and customers with a general overview of the fire department's finances and to demonstrate the fire departments accountability for the revenues it receives. If you have any questions concerning this report, please contact the fire department Chief, Assistant Chief, or Secretary-Treasurer by calling 269-751-2403 during the hours of 8:00 AM to 5:00 PM.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>114 354 63</u>
Total Current Assets	<u>114 354 63</u>
NON-CURRENT ASSETS:	
Capital Assets	685 401 55
Less: Accumulated Depreciation	<u>(337 852 82)</u>
Total Non-current Assets	<u>347 548 73</u>
TOTAL ASSETS	<u><u>461 903 36</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to other units	<u>99 496 65</u>
Total Current Liabilities	<u>99 496 65</u>
NON-CURRENT LIABILITIES:	
Notes payable	<u>75 314 08</u>
Total Non-current Liabilities	<u>75 314 08</u>
Total Liabilities	<u>174 810 73</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	272 234 65
Unrestricted	<u>14 857 98</u>
Total Net Assets	<u>287 092 63</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>461 903 36</u></u>

The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2006

		Program Revenue		Governmental Activities
				Net (Expense)
	Expenses	Charges for Services	Capital Grants and Contributions	Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Public safety	256 518 76	374 928 09	92 228 00	210 637 33
Interest on long-term debt	<u>10 160 45</u>	<u>-</u>	<u>-</u>	<u>(10 160 45)</u>
Total Governmental Activities	<u>266 679 21</u>	<u>374 928 09</u>	<u>92 228 00</u>	<u>200 476 88</u>
General Revenues:				
Interest				<u>221 62</u>
Total General Revenues				<u>221 62</u>
Change in net assets				200 698 50
Net assets, beginning of year				<u>86 394 13</u>
Net Assets, End of Year				<u>287 092 63</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
December 31, 2006

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	<u>114 354 63</u>
Total Assets	<u>114 354 63</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Due to other units	<u>99 496 65</u>
Total liabilities	<u>99 496 65</u>
Fund equity:	
Unreserved:	
Undesignated	<u>14 857 98</u>
Total fund equity	<u>14 857 98</u>
Total Liabilities and Fund Equity	<u>114 354 63</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
December 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	14 857 98
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	685 401 55
Accumulated depreciation	(337 852 82)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	<u>(75 314 08)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>287 092 63</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year ended December 31, 2006

	<u>Total (General)</u>
Revenues:	
Fire protection fees	374 928 09
Federal grant	92 228 00
Interest	<u>221 62</u>
Total revenues	<u>467 377 71</u>
Expenditures:	
Public safety:	
Fire protection:	
Wages	85 327 00
Payroll taxes	6 527 47
Insurance	16 690 00
Audit	1 800 00
Contracted services	1 345 00
Repairs and maintenance	31 087 89
Vehicle gas and oil	2 482 31
Supplies	45 843 91
Education and training	2 741 28
Telephone	1 110 78
Utilities	8 118 80
Miscellaneous	8 966 88
Capital outlay	57 849 00
Debt service	<u>197 487 39</u>
Total expenditures	<u>467 377 71</u>
Excess of revenues over expenditures	-
Fund balance, January 1	<u>14 857 98</u>
Fund Balance, December 31	<u><u>14 857 98</u></u>

The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2006

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND -

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(44 477 44)
Capital Outlay	57 849 00

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>187 326 94</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>200 698 50</u></u>
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The accompanying notes are an integral part of these financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Hamilton Fire Department, Allegan County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Fire Department contain all the Fire Department funds that are controlled by or dependent on the Fire Department's executive or legislative branches.

The Fire Department was organized in 1994 and includes the Townships of Heath, Manilus and Fillmore. The Department is governed by a Board consisting of nine members. The Fire Department provides fire protection services to the local units and is considered a separate reporting entity.

The reporting entity is the Hamilton Fire Department. The Fire Department is governed by an elected Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire Department as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire Department's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Fire Department reports only one fund as follows:

- The General Fund is used to record the operations of the Fire Department which pertain to maintaining and operating the Fire Department. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Fire Department. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Vehicles	20 years
Equipment	5-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Post-employment Benefits

The Fire Department provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire Department to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 3 – Deposits and Investments (continued)

The Fire Board has designated one bank for the deposit of Fire Department funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Fire Department's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>114 354 63</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>18 389 56</u>
Total Deposits	<u>118 389 56</u>

The Fire Department did not have any investments as of December 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Fire Department's Governmental activities for the current year was as follows:

	<u>Balance 1/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/06</u>
<u>Governmental Activities:</u>				
Equipment	<u>627 552 55</u>	<u>57 849 00</u>	<u>-</u>	<u>685 401 55</u>
Total	627 552 55	57 849 00	-	685 401 55
Accumulated Depreciation	<u>(258 427 74)</u>	<u>(44 477 44)</u>	<u>-</u>	<u>(337 852 82)</u>
Net Capital Assets	<u>369 124 81</u>	<u>13 371 56</u>	<u>-</u>	<u>347 548 73</u>

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 1/1/06	Additions	Deductions	Balance 12/31/06
Note payable – bank – 1999	61 528 11	-	49 881 48	11 646 63
Note payable – bank – 2000	60 001 50	-	40 111 07	19 890 43
Note payable – bank – 2004	141 111 41	-	97 334 39	43 777 02
Total	262 641 02	-	187 326 94	75 314 08

Note 6 – Note Payable – Bank – 1999

On April 21, 1999, the Fire Department obtained a loan from Monroe Bank and Trust in the amount of \$134,893.84 for the purpose of funding the acquisition of a new rescue vehicle. The note requires ten annual payments of \$17,154.81 including interest at the rate of 4.56% per annum. During the year ended December 31, 2006 the Fire Department made accerated principal payments of \$35,602.65. As of December 31, 2006, the principal balance outstanding on the note was \$11,646.63.

Note 7 – Note Payable – Bank – 2000

On October 9, 2000, the Fire Department obtained a loan from Monroe Bank and Trust in the amount of \$120,003.00 for the purpose of funding the acquisition of a new fire truck. The note requires ten annual payments of \$12,000.30 including interest at the rate of 5.75% per annum. During the year ended December 31, 2006 the Fire Department made accerated principal payments of \$34,402.89. As of December 31, 2006, the principal balance outstanding on the note was \$19,890.43.

Note 8 – Note Payable – Bank – 2004

On April 9, 2004, the Fire Department obtained a loan from Huntington Bank in the amount of \$153,430.71 for the purpose of funding the acquisition of a new fire truck. The note requires five annual payments of \$19,893.02 including interest at the rate of 4.95% per annum plus a balloon payment of \$105,916.98. During the year ended December 31, 2006 the Fire Department made accerated principal payments of \$81,844.62. As of December 31, 2006, the principal balance outstanding on the note was \$43,777.02.

Note 9 – Deferred Compensation Plan

The Fire Department does not have a deferred compensation plan.

Note 10 – Pension Plan

The Fire Department does not have a pension plan.

Note 11 – Risk Management

The Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire Department has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HAMILTON FIRE DEPARTMENT
Allegan County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Fire protection fees	241 000 00	394 275 00	374 928 09	(19 346 91)
Federal grant	-	93 000 00	92 228 00	(772 00)
Interest	190 00	190 00	221 16	(31 62)
Miscellaneous	<u>3 000 00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>244 190 00</u>	<u>487 465 00</u>	<u>467 377 71</u>	<u>(20 087 29)</u>
Expenditures:				
Public safety:				
Fire protection:				
Wages	100 000 00	100 000 00	85 327 00	(14 673 00)
Payroll taxes	8 000 00	8 000 00	6 527 47	(1 472 53)
Insurance	17 000 00	17 000 00	16 690 00	(310 00)
Audit	2 250 00	2 500 00	1 800 00	(450 00)
Legal	500 00	500 00	-	(500 00)
Contracted services	200 00	1 500 00	1 345 00	(155 00)
Repairs and maintenance	20 000 00	31 400 00	31 087 89	(312 11)
Vehicle gas and oil	1 250 00	2 500 00	2 482 31	(17 69)
Supplies	3 100 00	50 000 00	45 843 91	(4 156 09)
Education and training	3 800 00	3 800 00	2 741 28	(1 058 72)
Telephone	1 150 00	1 450 00	1 110 78	(339 22)
Utilities	7 000 00	10 000 00	8 118 80	(1 881 20)
Miscellaneous	2 800 00	7 120 00	8 966 88	1 846 88
Capital outlay	23 000 00	58 700 00	57 849 00	(851 00)
Debt service	<u>54 000 00</u>	<u>207 275 00</u>	<u>197 487 39</u>	<u>(9 787 61)</u>
Total expenditures	<u>244 050 00</u>	<u>201 495 00</u>	<u>467 377 71</u>	<u>(34 117 29)</u>
Excess (deficiency) of revenues over expenditures	140 00	(14 030 00)	-	14 030 00
Fund balance, January 1	<u>-</u>	<u>14 030 00</u>	<u>14 857 98</u>	<u>827 98</u>
Fund Balance, December 31	<u>140 00</u>	<u>-</u>	<u>14 857 98</u>	<u>14 857 98</u>

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

February 10, 2007

To the Fire Board
Hamilton Fire Department
Allegan County, Michigan

We have audited the financial statements of the Hamilton Fire Department for the year ended December 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Hamilton Fire Department in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire Board
Hamilton Fire Department
Allegan County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Department's financial statements and this communication of these matters does not affect our report on the Fire Department's financial statements, dated December 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants